

Janet Napolitano
Governor



Stephen A. Owens
Chairman

Water Infrastructure Finance Authority of Arizona

Jay R. Spector
Executive Director

November 29, 2005

The Honorable J.D. Hayworth
United States House of Representatives
2434 RHOB
Washington, D.C. 20515

Dear Congressman Hayworth:

The tax reconciliation legislation (S. 2020) recently passed by the Senate contains a provision concerning pooled financing bonds that will adversely affect the Water Infrastructure Finance Authority of Arizona's ("WIFA") program to finance wastewater and drinking water infrastructure projects throughout Arizona. This provision will have the effect of disrupting WIFA's ability to sell bonds to fund projects through our Clean Water State Revolving Fund ("CWSRF") and Drinking Water State Revolving Fund ("DWSRF").

The provisions contained within S. 2020 will result in more costly financing for water infrastructure projects built in Arizona. Further, the IRS has not identified any abusive practices in State pooled bonds, so there is no basis for placing unneeded restrictions on long-established state programs that finance projects to improve water quality and provide safe drinking water.

WIFA's pooled bond program provides low cost loans and grants to communities throughout Arizona that may not be able to access capital markets or to afford the costs of meeting their drinking water and wastewater needs. These pooled bond structures fall within the definition of "blind pools" as set forth in the Joint Committee on Taxation Report issued in January, 2005. Thus, they would now be subject to a requirement, included in the Senate-passed bill, that 50% of net bond proceeds be loaned in the first year or bonds have to be redeemed. The effect of this requirement would be to:

1. Force our program to go to the bond market more frequently in smaller amounts, thus increasing our borrowing costs and reducing proceeds available for loans.
2. Undermine prudent lending practices by requiring upfront disbursement of funds to the borrower. Currently, funds are made available as project costs are incurred. This allows our program time to monitor construction, assure the project stays

within budget, and see that it is completed in accordance with plans and applicable environmental laws.

3. Eliminate our ability to promise "call protection" to bondholders since bonds may have to be redeemed after the first year. Consequently, investors will demand higher interest rates thus diminishing funds available to build water infrastructure.

With reduced federal support for water infrastructure and growing demand for water quality improvements, it is vital that available resources are maximized to meet the need across the country and within Arizona. The pooled bond provisions in S. 2020 (Section 557) represent an unnecessary impediment to the efficient operation of our CWSRF and DWSRF programs. We hope that the provision is not included in the final conference report.

Please do not hesitate to contact me if I can provide you or your staff with more information about the impact of this provision on our program.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jay R. Spector", written in a cursive style.

Jay R. Spector
Executive Director

Janet Napolitano
Governor



Stephen A. Owens
Chairman

Water Infrastructure Finance Authority of Arizona

Jay R. Spector
Executive Director

November 29, 2005

The Honorable Jon Kyl
United States Senate
Washington, D.C. 20510

Dear Senator Kyl:

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